

CPP ANNUAL USE OF CAPITAL SURVEY - 2010



NAME OF INSTITUTION

(Include Holding Company Where Applicable)

MACKINAC FINANCIAL CORPORATION

Point of Contact:	ERNIE R. KRUEGEREVP/CFO	RSSD: (For Bank Holding Companies)	132554
UST Sequence Number:	803	Docket Number: (For Thrift Holding Companies)	N/A
CPP/CDCI Funds Received:	0	FDIC Certificate Number: (For Depository Institutions)	14816
CPP/CDCI Funds Repaid to Date:		Credit Union Charter Number: (For Credit Unions)	N/A
Date Funded (first funding):	April 24, 2009	City:	Manistique
Date Repaid ¹ :	N/A	State:	Michigan

¹If repayment was incremental, please enter the most recent repayment date.

American taxpayers are quite interested in knowing how banks have used the money that Treasury has invested under the Capital Purchase Program (CPP) and Community Development Capital Initiative (CDCI). To answer that question, Treasury is seeking responses that describe generally how the CPP/CDCI investment has affected the operation of your business. We understand that once received, the cash associated with TARP funding is indistinguishable from other cash sources, unless the funds were segregated, and therefore it may not be feasible to identify precisely how the CPP/CDCI investment was deployed or how many CPP/CDCI dollars were allocated to each use. Nevertheless, we ask you to provide as much information as you can about how you have used the capital Treasury has provided, and how your uses of that capital have changed over time. Treasury will be pairing this survey with a summary of certain balance sheet and other financial data from your institution's regulatory filings, so to the extent you find it helpful to do so, please feel free to refer to your institution's quarterly call reports to illustrate your answers. This is your opportunity to speak to the taxpayers in your own words, which will be posted on our website.

What specific ways did your institution utilize CPP/CDCI capital? Check all that apply and elaborate as appropriate, especially if the uses have shifted over time. Your responses should reflect actions taken over the past year (or for the portion of the year in which CPP/CDCI funds were outstanding).

☐ Increase lending or reduce lending less than otherwise would have occurred.

☐ To the extent the funds supported increased lending, please describe the major type of loans, if possible (residential mortgage loans, commercial mortgage loans, small business loans, etc.).

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☒ **Increase securities purchased (ABS, MBS, etc.).**

Initially, the holding company, Mackinac Financial Corporation infused \$3 million of the proceeds into mBank to increase capital. This increased capital was then leveraged to purchase approximately \$40 million of investment securities. This position was de-leveraged, late 2009.

☐ **Make other investments.**

☐ **Increase reserves for non-performing assets.**

☐ **Reduce borrowings.**

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☐ Increase charge-offs.

☐ Purchase another financial institution or purchase assets from another financial institution.

☒ Held as non-leveraged increase to total capital.

Mackinac Financial Corporation currently has \$5.9 million of the CPP funding remaining. This is being held as a non-leveraged increase to capital at the holding company. In total \$4 million of the \$11 million CPP funding has been infused into mBank to support capital.

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What actions were you able to avoid because of the capital infusion of CPP/CDCI funds?

None

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What actions were you able to take that you may not have taken without the capital infusion of CPP/CDCI funds?

We initially purchased approximately \$40 million of investment securities as a leveraging strategy with the \$3 million that was infused into mBank. This strategy was taken only to the extent necessary to offset the cost of the CPP funding. We de-leveraged this position at the end of 2009 by selling the purchased investments. In July of 2010 we infused an additional \$1 million to mBank to increase capital.

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Please describe any other actions that you were able to undertake with the capital infusion of CPP/CDCI funds.

None